



House of Representatives

General Assembly

File No. 623

February Session, 2008

Substitute House Bill No. 5611

House of Representatives, April 15, 2008

The Committee on Finance, Revenue and Bonding reported through REP. STAPLES of the 96th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING MUNICIPAL BONDING TO PERMIT TOWNS TO FUND SCHOLARSHIP FUNDS FOR RESIDENTS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective July 1, 2008*) (a) A municipality, as
2 defined in section 7-369 of the general statutes, may authorize the
3 issuance of bonds, notes or other obligations in accordance with the
4 provisions of chapter 109 of the general statutes for the purpose of
5 funding a scholarship fund established pursuant to subsection (b) of
6 this section to provide for tuition for residents of the municipality or
7 children of such residents attending public institutions of higher
8 education in this state.

9 (b) Any municipality that provides for bonding to fund a
10 scholarship fund for residents of the municipality or children of such
11 residents to attend public institutions of higher education in this state
12 under this section shall create a fund for such purposes. Any proposal
13 to create such fund, or to issue bonds for such fund, shall be subject to

14 confirmation by referendum at the next regular election of such
15 municipality. The provisions of section 7-374 of the general statutes
16 shall apply to any bonds issued pursuant to this section.

17 (c) There shall be paid into such fund the proceeds of bonds, notes
18 or other obligations issued pursuant to this section.

19 (d) The budget-making authority of such municipality may, from
20 time to time, direct the town treasurer to invest such portion of such
21 fund as in its opinion is advisable, provided: (1) Not more than forty
22 per cent of the total amount of the fund shall be invested in equity
23 securities, and (2) any portion of such fund not so invested may be
24 invested in: (A) Bonds or obligations of, or guaranteed by, the state or
25 the United States, or agencies or instrumentalities of the United States,
26 (B) certificates of deposit, commercial paper, savings accounts and
27 bank acceptances, (C) the obligations of any state of the United States
28 or any political subdivision thereof or the obligations of any
29 instrumentality, authority or agency of any state or political
30 subdivision thereof, provided at the time of investment such
31 obligations are rated within the top rating categories of any nationally
32 recognized rating service or of any rating service recognized by the
33 Banking Commissioner and applicable to such obligations, (D) the
34 obligations of any regional school district in this state, of any
35 municipality in this state or any metropolitan district in this state,
36 provided at the time of investment such obligations of such
37 government entity are rated within one of the top two rating categories
38 of any nationally recognized rating service or of any rating service
39 recognized by the Banking Commissioner and applicable to such
40 obligations, (E) in any fund in which a trustee may invest pursuant to
41 section 36a-353 of the general statutes, (F) in investment agreements
42 with financial institutions whose long-term obligations are rated
43 within the top two rating categories of any nationally recognized
44 rating service or of any rating service recognized by the Banking
45 Commissioner or whose short-term obligations are rated within the
46 top rating category of any nationally recognized rating service or of
47 any rating service recognized by the Banking Commissioner, or (G)

(e) The town treasurer shall submit annually a complete and detailed report of the condition of such fund to the chief executive officer, the budget-making authority and the legislative body and such report shall be made a part of the annual report of the municipality.

(f) Such fund may be discontinued, after recommendation by the chief executive officer and the budget-making authority to the legislative body and upon approval of such body, and to the extent there is any remaining portion of such fund, the fund shall be converted into, or added to, a sinking fund to provide for the retirement of the bonded indebtedness of the municipality. If the municipality has no bonded indebtedness, such fund shall be transferred to the general fund of the municipality.

Section 1	<i>July 1, 2008</i>	New section
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FIN *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

OFA Fiscal Note

State Impact: None

Municipal Impact:

Municipalities	Effect	FY 09 \$	FY 10 \$
Various Municipalities	Cost	See Below	See Below

Explanation

The debt service costs incurred by municipalities that choose to issue bonds to fund scholarships for students attending state public institutions will depend on: (1) the amount financed, (2) the interest rate at which the bonds are issued and (3) the length of time for which the bonds are issued.

The extent of the costs to municipalities to hold a referendum depends on the population of the town, and whether the referendum is submitted to electors at a regular election or at a special election. The cost for a referendum at a regular election is minimal, relating to the printing of referendum ballots and associated referendum signage. The cost to conduct a referendum at a special election varies by town population. Small towns, such as Andover and Roxbury, can hold a referendum for \$1,000. Large cities, such as Bridgeport and Stamford, could incur costs ranging from \$45,000 to \$85,000, to hold a referendum at a special election.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**sHB 5611*****AN ACT CONCERNING MUNICIPAL BONDING TO PERMIT TOWNS TO FUND SCHOLARSHIP FUNDS FOR RESIDENTS.*****SUMMARY:**

This bill authorizes municipalities to issue bonds, notes, or other debt obligations, according to state law governing municipal bond issues, to fund scholarships for municipal residents or their children attending state public higher education institutions. It requires any municipality that issues scholarship bonds to (1) create a fund for such purposes and (2) hold a referendum at its next regular election before establishing the fund or issuing any bonds for it. The bill subjects any bonds issued for this purpose to the municipality's bond cap. Municipalities include towns, cities, boroughs, metropolitan districts, special taxing districts, and any other municipal corporations with taxing and bonding power.

The bill specifies how the municipality may invest the money in the scholarship fund and discontinue the fund. And it requires the municipality to annually report on the fund's condition.

EFFECTIVE DATE: July 1, 2008

MUNICIPAL SCHOLARSHIP FUND***Investment Options***

The municipality's budget-making authority may direct the municipal treasurer to invest a portion of the fund it considers advisable. The treasurer may invest up to 40% of the fund in equity securities and the remaining amount in:

1. bonds or obligations (a) of the U.S. government or its agencies or instrumentalities, (b) of Connecticut, or (c) guaranteed by the

- state or U.S. government;
2. certificates of deposit, commercial paper, savings accounts, and bank acceptances;
 3. obligations of any state or political subdivision, or its instrumentalities, authorities, or agencies, as long as, at time of the investment, it is rated in the top rating categories of any nationally recognized rating service or one the banking commissioner recognizes;
 4. obligations of any Connecticut municipality, regional school district, or metropolitan district, as long as, at the time of the investment, it is rated in one of the two highest rating categories by a nationally recognized rating service or one the banking commissioner recognizes;
 5. any U.S.-registered investment company or investment trust (a) whose portfolio is limited to U.S. government obligations and repurchase agreements fully collateralized by such obligations and (b) rated in one of the two highest rating categories by a nationally recognized rating service;
 6. investment agreements with a financial institution whose (a) long-term obligations are rated in one of the two highest rating categories by a nationally recognized rating service or one the banking commissioner recognizes and (b) short-term obligations are rated in the top rating category by such a rating service; and
 7. U.S. secured or –guaranteed investment agreements.

Reporting Requirement

The municipal treasurer must annually submit a complete and detailed report on the fund's condition to the municipality's chief executive officer, budget-making authority, and legislative body. The municipality must include that report in its annual report.

Discontinuing the Fund

The bill allows the fund to be discontinued upon recommendation of the chief executive officer and budget-making authority and the approval of the municipality's legislative body. Once it is discontinued, the remaining money must be (1) converted or added to a sinking fund to retire the municipality's debt or (2) if the municipality has no debt, transferred to its general fund.

COMMITTEE ACTION

Higher Education and Employment Advancement Committee

Joint Favorable Change of Reference

Yea 17 Nay 0 (03/11/2008)

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 39 Nay 13 (04/02/2008)